Rights of Way Applications
June 21, 2010

APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	Youngs Creek Mining Company LLC 1949 Sugarland Drive, Suite 220 Sheridan WY 82801
Application No.:	14929
R/W Purpose:	a 40-year limited term easement for the construction of a single line railroad, including access road and associated electrical and telecommunications cable
Lessee Agreement:	ok
Acreage:	31.91
Compensation:	$44,674.00
Legal Description:	600-foot strip through Gov. Lots 1, 2, 3 & 5, Sec. 36, Twp. 9S, Rge. 39E, Big Horn County
Trust Beneficiary:	Common Schools
Classification:	II

☞ This application is a revisit from a previous presentation to the Board at the August 10, 2009 meeting. At that meeting additional information was requested regarding possible re-route of the proposed rail line off of State land and analysis of the product from Youngs Creek complex in Wyoming in relationship to the Otter Creek reserves in Montana. Information regarding the ability of the market to support both products was also sought. Attached is information that has been gathered in the intervening months. Additionally, Youngs Creek has offered double the previous proposed compensation to the trust beneficiary for the proposed easement request.

YOUNGS CREEK EASEMENT REQUEST

OVERVIEW:

This proposed easement is for a rail spur line that would connect the Youngs Creek coal mine in Wyoming to the existing Burlington Northern-Sante Fe Railway (BNSF) Decker spur line. The coal mine lies approximately one mile from the Montana state line and lies east of the Tongue River. The rail line will transport coal from the Youngs Creek mine to the BNSF Decker spur in Montana, which heads south to Wyoming and then loops back in to Montana, connecting to the main BNSF line heading to east and west markets (See Attachment 1).

A 40-year limited term easement is recommended due to the life expectancy of the mine. It is possible that additional coal deposits may be expanded, possibly into Montana, which would extend the life of the mine. Once terminated, the easement corridor will be reclaimed to the specifications of DNRC.

Because this rail line is not in a common carrier status, no federal permits are required. Additionally, other than possible permits needed from DEQ for air quality and stormwater discharge. The Tongue River will not be crossed and the proposed line avoids coming close in proximity to the river banks.

ANALYSIS OF RELOCATION:

Alternate routes were reviewed in detail. Given the construction constraints regarding track curvature and alignment with the existing BNSF Decker spur, limited possibilities exist.

Preferred Alternative – State Land:

The proposed rail spur would traverse grazing lands that are rated as being less productive than the state average. The state lessee requested a modification to their lease agreement and assigned to Youngs Creek the portion of the lease over which the proposed rail spur would be constructed. Youngs Creek is currently paying the annual AUM rate applicable to that portion of the lease.

The proposed route into Montana and crossing the State section is less environmentally invasive and stays a safe distance from the Tongue River. It also avoids construction of difficult track alignments and curvatures that were not acceptable to BNSF if the line were constructed solely in Wyoming (See attachment 2).

North of State Land:

This route is not considered viable. Properties north and west of the state land contain federal coal deposits that may be extracted in the future. Placement of a rail spur through this area would sterilize the coal.

South of State Land:

Placement of a rail line south of the State land would impact and cause relocation of a major ditch system, the Interstate Ditch, and destroy irrigated hay land (See Attachments 3-4). The landowner impacted has stated he would be adamantly opposed to such a location. In addition, this proposed alignment would place the center of the rail line within 1,700 feet of his private residence and within 500 feet of the Tongue River. The southern route would require an additional five million cubic yards of fill material, which would rise 95 feet from the lowest point on the route up to the rail bed.

Wyoming Side:

Proposing a route strictly through Wyoming would severely impact highly productive agricultural lands and require multiple crossings of the Tongue River. In addition, given the curvature of the BNSF spur in Wyoming a connection at that location would be much less desirable to BNSF.

MARKET ANALYSIS – YOUNGS CREEK & OTTER CREEK:

Seams for both Youngs Creek and Otter Creek are located within the North Powder River Basin and are comparable in regards to sodium levels and BTU's, with Youngs Creek having slightly lower sodium and a higher BTU rating. Similar coal deposits are currently being mined in the Decker and Spring Creek complexes. Production in Spring Creek and Decker is shown on Attachment 5.

It is anticipated that by 2030 coal consumption will increase in both the foreign (China & India primarily) and domestic markets. Current global consumption rates are estimated to rise by 56% by 2035 as reported by Department of Energy. Existing coal mines in the Appalachian Basin are declining in production. Demand for coal from the Powder River Basin will be required to fill the gap. (See Attachments 6-10)

By 2013 the Youngs Creek complex could be providing coal to both foreign and domestic markets. At the peak of production Youngs Creek could provide 15 million tons of coal annually.

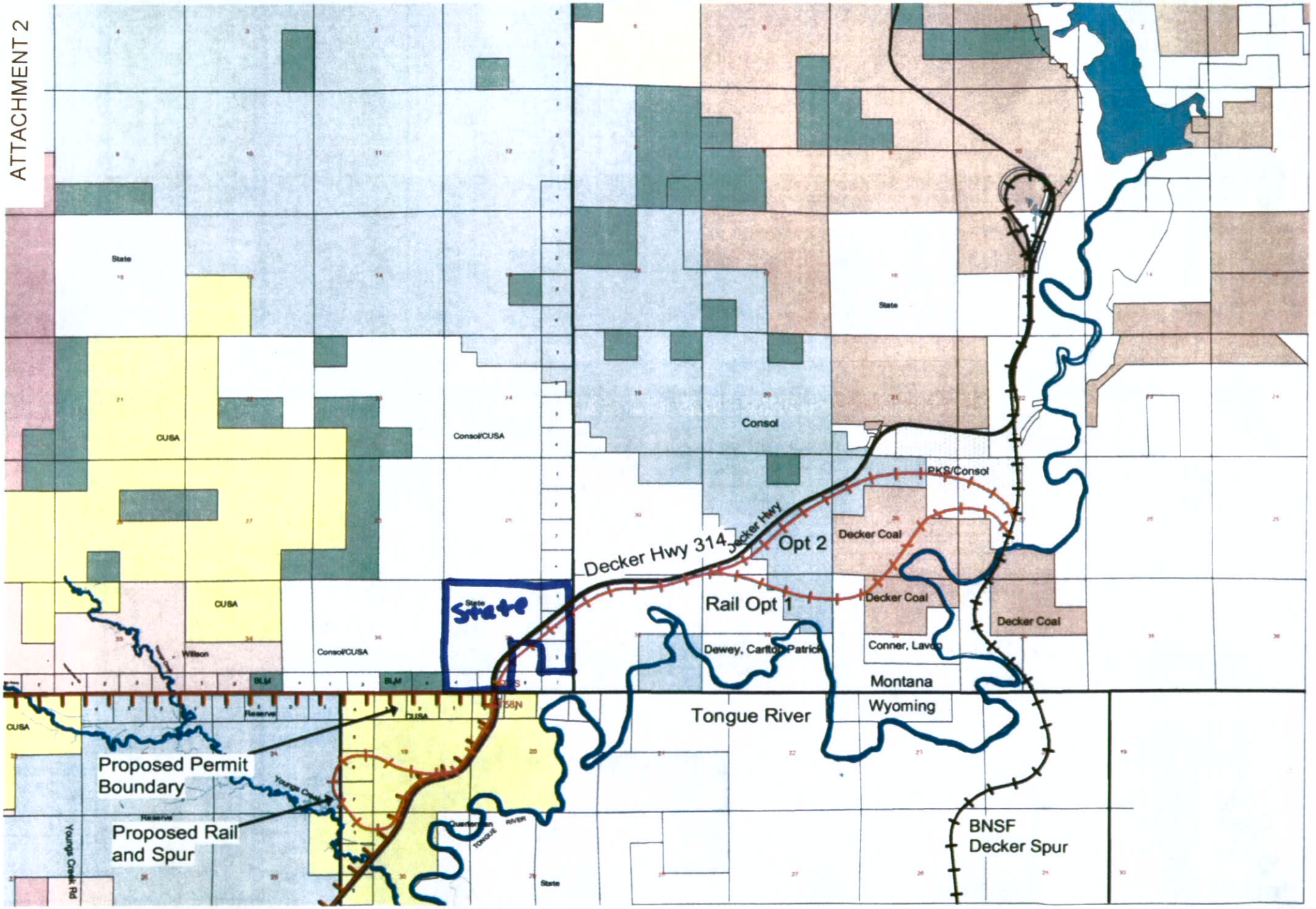
In contrast, Otter Creek is in the early stages of the lease agreement with the State and has 10 years to commence a variety of studies and permitting applications towards production.

Due to a variety of unknown factors, it is not possible to develop an analysis of exactly how much coal can be absorbed into the market and whether Youngs Creek coal would be in direct conflict with the sale and marketing of Otter Creek coal. Early figures indicated that 30-40 million tons could be absorbed into the market currently, however, current projections by Department of Energy and others appears to indicate that an increased supply would be needed. Therefore, it does not appear there would be competition between the two companies for coal contracts.

ATTACHMENT 1

BNSF Rail Map

ATTACHMENT 2

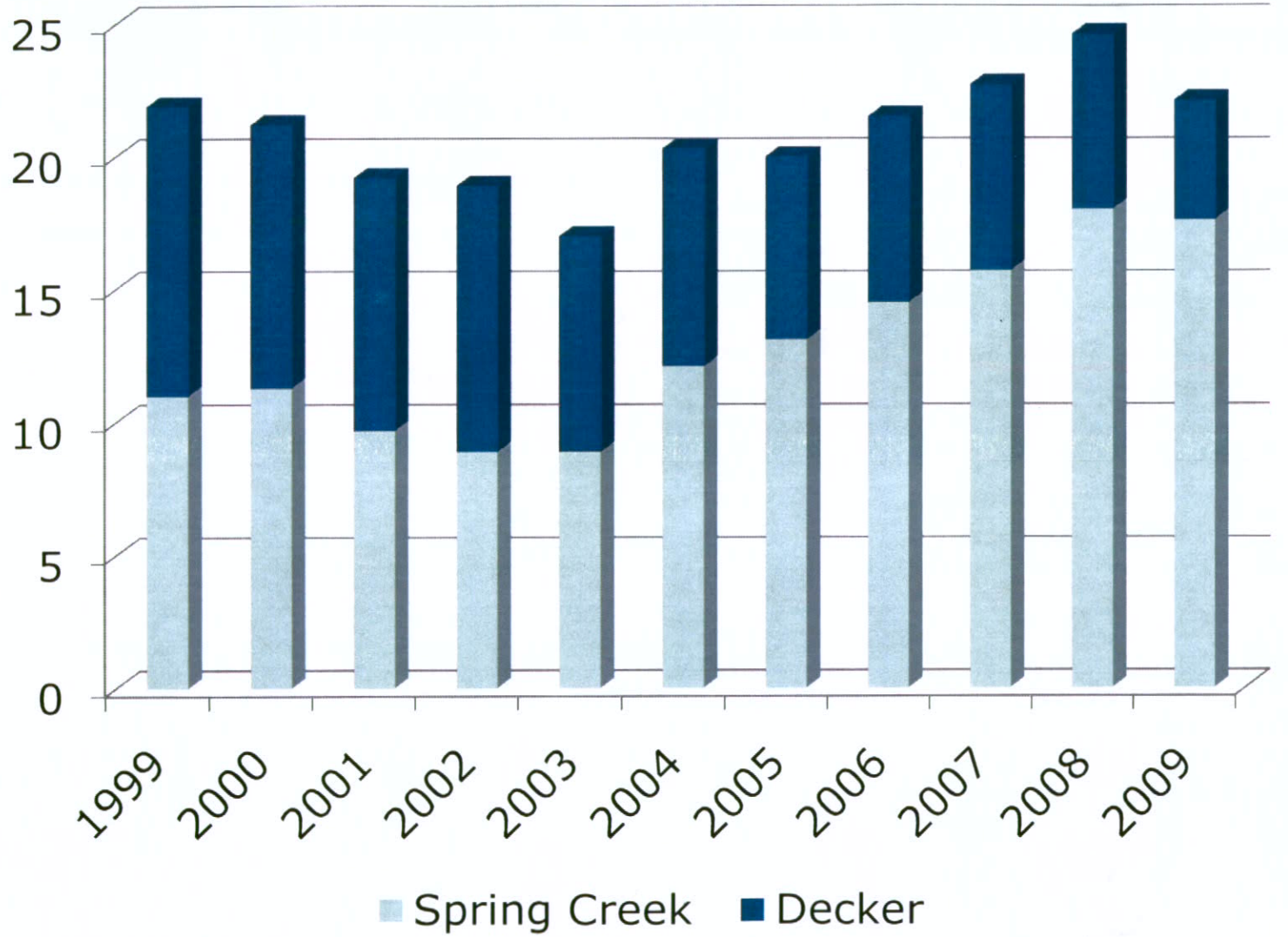


ATTACHMENT 3

ATTACHMENT 4

ATTACHMENT 5

Annual Production for High BTU NPRB Coal x 1,000 Short Tons



Source: MSHA Data and Ventyx Data Base

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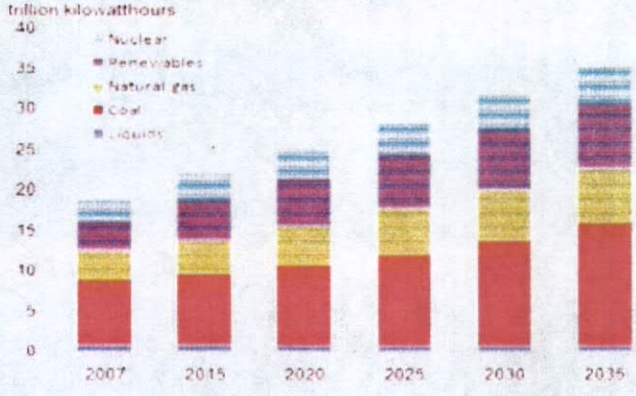
EIA Predicts Surge in World Coal Consumption

Figure 6 World net electricity generation by fuel



Global coal consumption will jump 56 percent by 2035, according to the U.S. Department of Energy's Energy Information Administration (EIA) recent projections. EIA's preliminary release of the International Energy Outlook 2010 estimates that world coal consumption will increase from 132.4 quadrillion Btu in 2007 to 206.3 quadrillion Btu in 2035 (an average annual growth rate of 1.6 percent). In the U.S., EIA predicts coal consumption will grow 10.6 percent from nearly 23 quadrillion Btu's in 2007 to 25 quadrillion Btu's in 2035. China, the world's largest coal producing country, will see its consumption level more than double, jumping from 55 quadrillion Btu's in 2007 to 112 quadrillion Btu's in 2035. India's 10 quadrillion Btu consumption level rises about 52 percent to nearly 16 quadrillion Btu's in 2035.

The dramatic increase in global coal use is the result of a projected 49 percent jump in world energy consumption (2007-2035). World energy use increases from 495 quadrillion Btu's in 2007 to 739 quadrillion Btu's in 2035. According to the report, 84 percent of that increase is the result of expected strong economic growth in non-OECD countries. Despite the current near-term economic slump that began in 2007, EIA expects demand for energy for manufacturing and consumer products to rebound after 2010. EIA anticipates a 14 percent growth rate in OECD countries during the same period.

World net electricity generation increases 87 percent from 18.8 trillion kWh in 2007 to 35.2 trillion kWh in 2035. Coal-based generation is predicted to rise 90 percent from 7.9 trillion kWh to 15 trillion kWh in the same period. Coal, representing 42 percent of generation in 2007, rises to nearly 43 percent in 2035.

A copy of EIA's preliminary International Energy Outlook 2010 is available at: EIA's report.

NMA staff contact: Leslie Coleman at lcoleman@nma.org or (202) 463-9780.

Bloomberg

India Coal Imports May Rise to 100 Million Tons on Power Demand

May 20, 2010, 12:02 AM EDT

By Simon Lomax

May 20 (Bloomberg) -- India may import close to 100 million metric tons of coal this year to meet growing demand for the fuel from power plants, Partha Bhattacharyya, chairman of Coal India Ltd., said in Washington.

The total tonnage of coal imported for the year ending March 31, 2011, "should be around 100 million," Bhattacharyya said in an interview yesterday. He said it wasn't an official projection of India's government.

The construction of new power plants and an expansion of India's steel-making industry could triple coal imports from their 2007 level by 2030, the U.S. Energy Information Administration predicted last year. Provisional data for the year ended March 31 put India's imports at 81 million tons, the chairman of the state-owned producer said. In 2009, imports totaled 59 million tons, he said.

"Power generation is what is driving the demand," Bhattacharyya said. New coal-fired power plants, ranging in size from 660 megawatts to 4,000 megawatts, are being built throughout India, he said.

South Africa has already cut back coal shipments to Europe and boosted deliveries to Asia as India and China's economies recover from last year's slowdown, according to mjunction Services Ltd., a web-based trader backed by India's biggest steel producers.

Coal India revised down its output target in March, saying it planned to produce 486 million tons by 2012, lower than the 520 million tons previously expected. Bhattacharyya said the company aimed to produce 460 million tons in the fiscal year ending March 31.

Strategic Partnerships

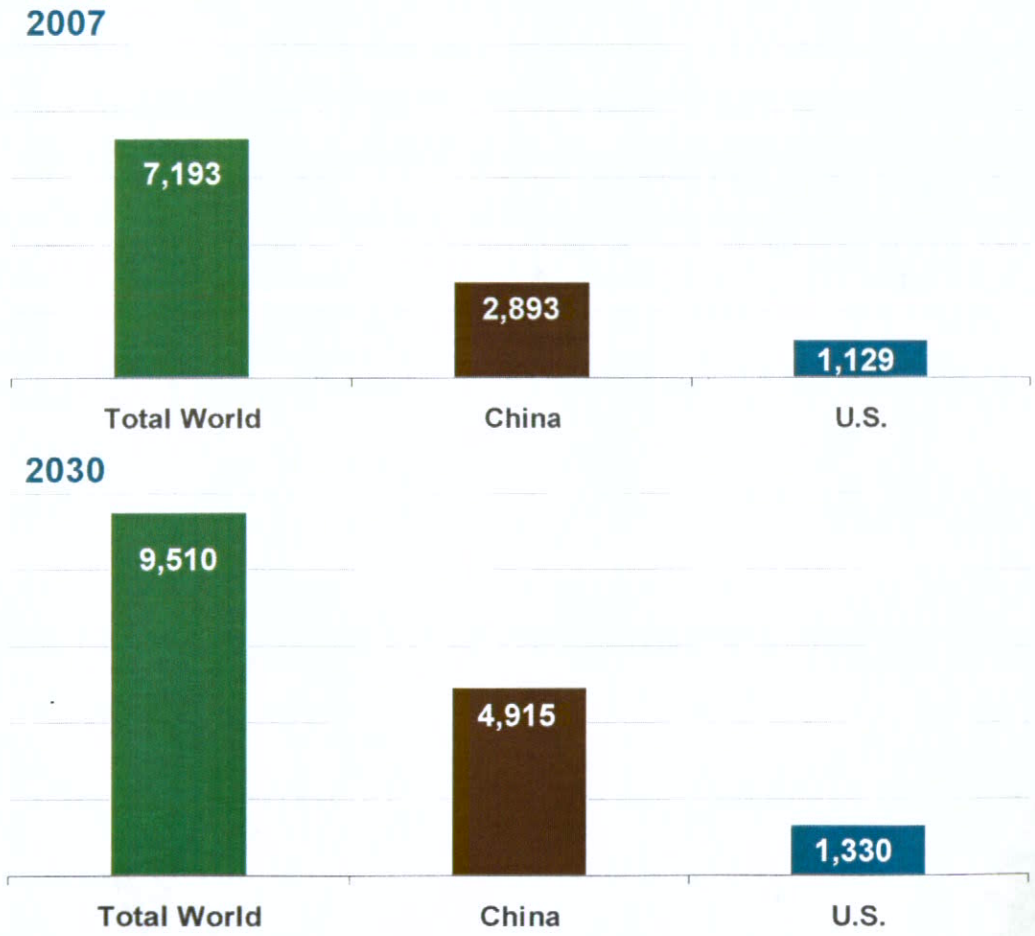
Currently, Coal India pays spot market rates for coal imports. The company may spend $1.7 billion on "strategic partnerships" with five mines in the U.S., Australia and Indonesia to get a better price on imported coal, Bhattacharyya said. The proposed deals represent about 280 million tons of coal over 10 years, he said.

Bhattacharyya, who was in Washington to meet with U.S. mining industry representatives and Energy Department officials, declined to name the companies whose proposals are under review. The final decision from India's government is expected by late June or mid-July, he said.

World coal consumption is expanding rapidly

- Over **80%** of the world's population lives in developing countries
- Many developing countries are just reaching the point where individual wealth and energy consumption start to **accelerate**

Coal Consumption
(in millions of short tons)



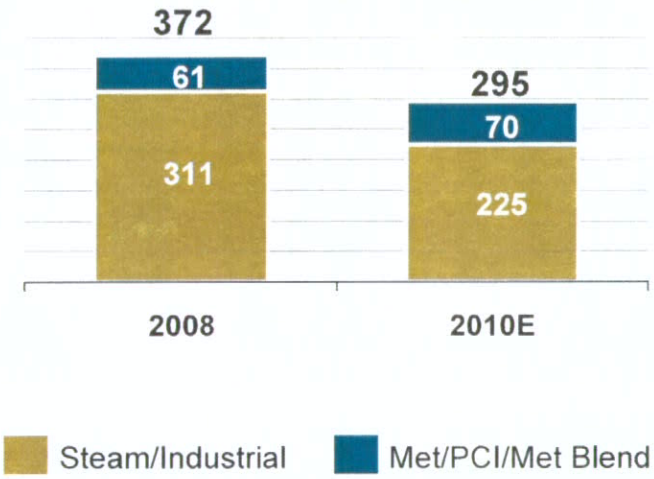
Sources: EIA, International Energy Outlook 2009

Competition is set to increase for constrained coal supply in Northern and Central Appalachia

- Nearly **90 million tons** of high-Btu Appalachian production could disappear from steam coal markets or migrate to higher margin met coal markets
- Other coal basins will need to fill the supply gap left by the Appalachian basins

Northern and Central Appalachia Coal Production

(in millions of tons)



Source: EIA and ACI

ATTACHMENT 10

Powder River Basin should fill most of the supply gap from the Appalachian basins over the next five years

Powder River Basin

- **Lowest cost** and **largest** coal supply region in the United States
- Consistent with history, **PRB will be called upon to fill supply gap** created by Appalachia
- Replacing 90 million tons of Appalachian coal would require more than 120 million tons of PRB coal on a Btu-equivalent basis
- Would represent the most profound call on PRB yet

Illinois Basin

- **Positive long-term outlook … but with challenges**:
  - Much higher cost than PRB
  - Capital investment required will be significant
  - Long lead time for permitting and project development
  - Some areas contain difficult geology
  - Quality disadvantage (particularly chlorine) in certain regions

Northern App

- Limited growth potential
- High sulfur content
- **Export pull** for steam and crossover met products will further reduce supply available to domestic power generators